

NEW APPLICATION



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April 29, 2005

Colleen Ryan, Supervisor
Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

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2005 MAY -2 P 4: 17
AZ CORP COMMISSION
DOCUMENT CONTROL

Re: In the Matter of the Application of Las Quintas Serenas Water Company for
Authority to Incur Long-Term Indebtedness to Finance Water System Improvements
and Assure Compliance with New Arsenic Rules (Docket No. W-01583A-05-___)

W-01583A-05-0326

Dear Ms. Ryan:

Enclosed for filing in the above-captioned proceedings are the original and sixteen (16) copies of an
Application In the Matter of the Application of Las Quintas Serenas Water Company for Authority to
Incur Long-Term Indebtedness to Finance Water System Improvements and Assure Compliance with
New Arsenic Rules.

Also enclosed are two additional copies of the Application to be conformed and returned to our
office.

Please let me know if you have any questions, and thank you for your assistance.

Sincerely,

Lawrence V. Robertson, Jr.

LVR:cl

Arizona Corporation Commission

DOCKETED

MAY 02 2005

DOCKETED BY

NEW APPLICATION

BEFORE THE ARIZONA CORPORATION COMMISSION

ORIGINAL

Jeff Hatch-Miller
Commissioner
William A. Mundell
Commissioner
Marc Spitzer
Commissioner
Mike Gleason
Commissioner
Kristin K. Mayes
Commissioner

W-01583A-05-0326

IN THE MATTER OF THE APPLICATION)
OF LAS QUINTAS SERENAS WATER CO.) Docket No. W-01583A-05-____
FOR AUTHORITY TO INCUR LONG-TERM)
INDEBTEDNESS TO FINANCE WATER)
SYSTEM IMPROVEMENTS AND ASSURE) **APPLICATION**
COMPLIANCE WITH NEW ARSENIC)
RULES)
)

Pursuant to A.A.C. R14-3-106(F) and A.R.S. 40-301 et seq., Las Quintas Serenas Water Co. ("LQS"), by and through its undersigned counsel, hereby makes Application for an Opinion and Order authorizing it to incur certain long-term indebtedness for the purpose of financing water system improvements and assuring compliance with new arsenic rules. In support of its Application, LQS submits the following information.

I.

DESCRIPTION OF APPLICANT

LQS is an Arizona public service corporation subject to regulation by the Commission as a water utility. LQS has received a certificate of convenience and necessity to provide potable water service to the public within a certificated service area in the vicinity of Sahuarita, Arizona. At present, LQS provides such service to approximately 826 customer connections, as well as standpipe water service to approximately 146 additional customers.

Arizona Corporation Commission

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MAY 02 2005

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[Signature]

1 As a public water service provider, LQS is subject to the regulations of the United States
2 Environmental Protection Agency ("EPA") which have lowered the allowable concentration of
3 arsenic in drinking water from 50 parts per billion to 10 parts per billion, effective January 23,
4 2006 ("New Arsenic Rules").

5
6 **II.**

7 **CIRCUMSTANCES OCCASIONING APPLICATION**

8 Westland Resources, Inc. ("Westland") recently completed the preparation of a
9 comprehensive Water System and Arsenic Master Plan ("Plan") for LQS. The Plan in final form
10 was submitted to LQS on March 24, 2005 and was approved by LQS's Board of Directors at a
11 meeting held at LQS's offices on April 6, 2005. The Plan provides for LQS to incur
12 approximately \$1,789,375 in capital costs in order to implement certain water system
13 improvements recommended by Westland, and in order to place LQS in a position where it will
14 be able to comply with the New Arsenic Rules. On January 4, 2005, the Commission issued its
15 Decision No. 67455 which authorized new rates and charges for water service provided by LQS.
16 However, those rates and charges did not include any recovery of revenues related to recovery of
17 capital costs associated with the water system improvements recommended by Westland, or
18 capital costs associated with LQS's compliance with the New Arsenic Rules.
19

20 In its Decision No. 67455, the Commission found a fair value rate base of \$161,341 for
21 LQS. The capital costs necessary in order to implement the water system improvements and
22 arsenic compliance program measures represent approximately \$1,789,375, a sum substantially
23 in excess of the aforesaid fair value rate base. In addition, Decision No. 67455 authorized only a
24 2.9 percent increase over test year revenues. Given these circumstances, and the fact that LQS's
25 current capital structure is 100 percent common equity, LQS's Board of Directors has
26 determined that it is both necessary and appropriate to finance implementation of the Plan
27 through the incurrence of long-term indebtedness in the amount of \$1,789,375. Such
28

1 indebtedness would provide LQS with timely access to needed funds which are not available
2 from the company's operations, and it would also result in a more balanced capital structure.

3 **III.**

4 **PROPOSED FINANCING ARRANGEMENT**

5 In order to raise the aforesaid \$1,789,375, LQS intends to submit an application to the
6 Water Infrastructure Financing Authority of Arizona ("WIFA") requesting a design and
7 construction loan in the aforesaid amount from Arizona's Drinking Water Revolving Fund
8 ("DWRF"). In addition, and as a possible alternative source of financing, LQS intends to submit
9 a loan application for the same amount to a traditional commercial lender, such as a bank. In that
10 regard, it is conceivable that the required funds might be raised through a combination of a
11 DWRF loan from WIFA, and a loan from a more traditional commercial lending institution. As
12 the Commission is aware, both types of borrowing would require prior authorization from the
13 Commission. Accordingly, LQS is requesting through this Application that the Commission
14 issue an appropriate procedural order and set this matter for hearing. LQS anticipates that prior
15 to the date set for hearing it will be in a position to provide the Commission and its Staff with
16 details of the proposed loan arrangement(s). At such time, LQS will submit a balance sheet and
17 income statement reflecting the effect of the proposed financing.
18
19

20 **IV.**

21 **USE OF PROCEEDS RESULTING FROM PROPOSED FINANCING**

22 As noted above, LQS intends to use the proceeds which would result from the proposed
23 financing to fund implementation of the water system improvements and arsenic compliance
24 measures recommended in the Plan. A list of the facilities which would be constructed and
25 installed in that regard is attached hereto as Appendix "A," and is incorporated herein by
26 reference.
27
28

V.

PROPOSED FINANCING CONSISTENT WITH A.R.S. 40-301 ET SEQ.

The proposed financing is (i) within the corporate powers of LQS, (ii) compatible with the public interest, (iii) compatible with sound financial practices, (iv) compatible with the proper performance by LQS of service as a public service corporation and (v) will not impair its ability to perform that service.

VI.

NOTICE OF APPLICATION

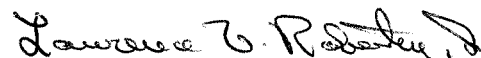
Attached hereto as Appendix "B" and incorporated by reference is a copy of a notice of the filing of this Application which LQS will be sending to each of its customers as an insert in the next billing cycle. LQS will file a Notice of Mailing with the Commission when that mailing has been accomplished, together with a copy of the form of notice mailed. In addition, LQS will provide such additional form of notice to its customers, if any, as the Commission may require.

VII.

CONCLUSION

WHEREFORE, LQS hereby requests that the Commission set the instant Application for hearing at the earliest practicable date, and thereafter issue an Opinion and Order authorizing LQS to incur long-term indebtedness in the amount of \$1,789,375 in order to finance water system improvements and achieve compliance with the New Arsenic Rules.

Dated this 29th day of April, 2005.



Lawrence V. Robertson, Jr.
Munger Chadwick, PLC
333 N. Wilmot, Ste. 300
Tucson, Arizona 85711
Attorney for Las Quintas Serenas Water
Company

1 The original and 16 copies
2 of the above Application
3 were filed on the 2nd day of
4 May, 2005 with

5 Arizona Corporation Commission
6 Docket Control
7 1200 West Washington
8 Phoenix, Arizona 85007

9 A copy of the above
10 Application was hand-delivered
11 on the 2nd day of May, 2005 to:

12 Ernest Johnson, Director
13 Utilities Division - ACC
14 1200 West Washington
15 Phoenix, Arizona 85007

16 Steve Olea, Assistant Director
17 Utilities Division - ACC
18 1200 West Washington
19 Phoenix, Arizona 85007

20 Christopher Kempley
21 Chief Counsel - ACC
22 1200 West Washington
23 Phoenix, Arizona 85007
24
25
26
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APPENDIX "A"

OPINION OF PROBABLE CONSTRUCTION COST

Project Name: Las Quintas Serenas Existing System Upgrades

Project No. 1148.01 A 8000

Location: Sahuarita, Arizona

Description: Combined Arsenic Treatment at Well Site 6

Prepared by:

Checked by:

Client:

JL

KF

Las Quintas Serenas Water Company

Date: 03/24/05

Date: 03/24/05

Item No.	Item Description	Unit	Quantity	Unit Price	Amount	Remarks
1	Site Demolition and Removal of Abandoned Facilities at Well Sites	LS	1	\$10,000	\$10,000	Well No. 6. Assumes that existing hydro tank will be reused.
2	Site Piping Well Site No. 6	EA	1	\$100,000	\$100,000	Includes flow control valves and connections to treatment units
3	Concrete Slabs for Site Equipment	CY	40	\$350	\$14,000	Well Nos. 5 and 6
4	8-inch water main	LF	2,500	\$45	\$112,500	Well No. 7 to Well No. 6
5	400,000 gallon reservoir	LS	1	\$325,000	\$325,000	Well No. 6
6	850-gpm transfer booster station	LS	1	\$120,000	\$120,000	Well No. 6 (pre-packaged VFD pump station)
7	1,250 gpm Adsorption Arsenic Treatment System	LS	1	\$500,000	\$500,000	To treat Well Nos. 6 and 7 (Severn Trent)
8	200 gpm Adsorption Arsenic Treatment System	LS	1	\$100,000	\$100,000	To treat Well No. 5
9	Back-up Generator	LS	1	\$80,000	\$80,000	Well No. 6
10	Fencing and Site Work at Well Sites	EA	1	\$40,000	\$40,000	Well No. 6, includes grading for floodplain
11	Re-equip well	EA	2	\$15,000	\$30,000	Well Nos. 6 and 7, to remove bowls
12	Subtotal				\$1,431,500	
13	25% Engineering and Contingencies				\$357,875	
14	TOTAL				\$1,789,375	

APPENDIX “B”

PUBLIC NOTICE
OF
AN APPLICATION FOR AN ORDER AUTHORIZING
THE INCURRENCE OF LONG-TERM DEBT BY
LAS QUINTAS SERENAS WATER CO.

Las Quintas Serenas Water Company has filed an Application with the Arizona Corporation Commission for an order authorizing the Company to incur \$1,789,375 of long-term debt. The application is available for inspection during regular business hours at the office of the Commission in Phoenix, Arizona, and the Company's offices in Sahuarita, Arizona.

Intervention in the Commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon the Company and which, at a minimum, shall contain the following information:

1. The name, address and telephone number of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding.
3. Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing.
4. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15th day after receipt of this notice.